

JK Lakshmi Cements

Sector: Cement /Small Cap | Earnings Update – 4QFY20

25 May 2020

BUY

Background: JK Lakshmi Cements (JKLC) is a north Indian Cement player, established in 1982. JKLC has clinker units in Sirohi, Rajasthan and grinding units in Rajasthan, Gujarat and Haryana. The current clinker capacity is 6.2 MTPA and cement capacity is 11.5 MTPA. JKLC derives sales volume from the northern and western regions. The company has market share of ~6-7% in the northern region and ~9-10% in western regions. JKLC is on the spree of capacity expansion; recently commenced Durg Plant (2.7 MMT), plans for another 1.6 MTPA capacity at Cuttak and Surat also reviving its defunct unit at Udaipur.

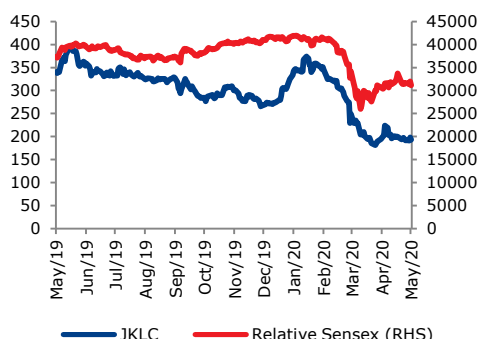
Sensex	30,672
Nifty	9,039
Price	₹ 209
Target Price (12 months)	₹ 284
Recommendation	BUY

52 Week High/Low	₹ 396/180
Bloomberg / Reuters	JKLC IN/JKLC.BO
Equity (shares in mn)	117.7
Mkt. Cap in mn	₹ 24.4/ \$ 0.3
Avg. Daily Vol. ('000)	208.6
Avg. Daily Vol. (mn)	₹ 15.8 / \$ 0.4

Shareholding	Mar 19	Dec19	Mar 20
Promoters (%)	45.9	45.9	46.2
FII (%)	9.0	10.5	10.6
DII (%)	20.4	18.7	19.8
Others (%)	24.6	24.8	23.4
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2020	2021E	2022E
Revenue	40.4	41.8	48.5
EBITDA	6.7	6.5	7.3
Adj PAT	2.6	2.1	3.0
Adj EPS	22.3	17.7	25.6
P/E	9.2	11.6	8.0
P/BV	1.4	1.9	1.6
EV/EBITDA	4.1	6.1	4.7
EV/Sales	0.7	0.9	0.7
Div Yield (%)	0.7	1.0	0.0
ROE (%)	15.6	28.1	28.2

Performance(%)	1M	3M	12M
JKLC	-0.57	-43.9	-43.17
SENSEX	1.41	-24.56	-16.6



Strong show on Lower Costs & Higher Realization

- JK Lakshmi Cement (JKLC's) Top-line declined by 9.5% YoY to ₹10.6bn led by ~16% YoY decline in volumes, while realisation improved 8% YoY. EBITDA grew 54% YoY to ₹2.0bn for 4QFY20, in line with consensus estimates. Pure cement volumes fell ~22% YoY while clinker volume grew 58% YoY. During 4QFY20, capacity utilisation for clinker stood at 95% and 74% for cement EBITDA/t was above consensus estimates at ~₹820 higher ₹375YoY/₹170QoQ. PAT at ₹1bn grew 2.3x YoY on higher operating profit, other income, and lower interest expense.
- Currently, JKLC has taken ₹10/bag hike in North/ East and ₹15/bag in Central region, but prices remain weak in western markets. In east, nearly 80% of sale is in Trade segment vs. 55% in North.
- Total costs/ t was lower 5% QoQ, ₹180/T (-1.4% YoY). Freight cost/t dipped 2% QoQ/7% YoY. Power & Fuel (+RM Cost/t) was lower 6% QoQ/5% YoY. Due to the lockdown, there is some increase in logistics costs; however JKLC is offsetting the same through direct dispatches to the site. In 4QFY20, JKLC's booked pet coke price stood at ₹7000/T versus ₹8100/T YoY; on spot basis, there is a 10% reduction in fuel cost as of now. Fuel Mix for 4QFY20 was 20%:80% (Coal: Pet coke).
- Management informed that plants are operating at 65-70% utilization in May with Eastern region at 75%. The company's higher share of dedicated transporters (~50% of the sales requirement) and 18-20% dependence on Railways helped it reach 65-70% utilization in a short span of time. As plants opened, initial volume requirements came from dry supply Chain and rural construction which left incomplete due to lockdown. The company expects dispatches in June to be equivalent to May as buyers would rush to finish work prior to monsoons.
- JKLC's debt position as of FY20 end, stands at ₹14.5bn and the company has scheduled payment of ₹2.5-2.7bn per year for next 2 years. At Udaipur Cement Works (UCW), Debt is at ₹5.5bn and the repayment schedule is gradual for UCW. JKLC has also provided a loan of ₹400mn to one of its group companies, as a measure of deployment of treasury corpus.
- Capex: Company has kept its expansion plans (in North) on Hold. It had earlier planned a capex of ₹12-14bn for 1.9mnT clinker and 2.5mnT Grinding expansion in North and would have announced the expansion by now under normal circumstances. Company is doing small WHR project at Sirohi (₹1.2bn capex in FY21) and small capex at UCW (₹500mn) related to debottlenecking to increase clinker capacity from 1.2mnT to 1.5mnT by FY21 end. Company has planned maintenance capex of ₹250mn for FY21.

Valuation: Going ahead, positive cash flow generation led by better operating performance and no meaningful capex in the near-to-medium term will aid JKLC to deleverage its balance sheet in subsequent years. JKLC guided to maintain its net debt to EBITDA ratio 1.0x. At CMP, the stock is trading at 4.7x its FY22E EV/EBITDA. We revise our rating to a BUY, with a target price of ₹284, valuing the company, at 7.5x FY22E EV/EBITDA.

Risks: Government's failure to revive infrastructure projects, a substantial increase in operating cost.

Results Summary 4QFY20

Y/E March (INR bn)	4QFY20	4QFY19	YoY Growth	3QFY20	QoQ Growth
Revenue	10,050	9,350	7.5%	9,355	7.4%
EBITDA	1,519	983	54.6%	1,487	2.2%
Depreciation	485	451	7.5%	437	11.0%
Other Income	147	139	5.5%	62	137.3%
PBT	754	198	281.1%	728	3.6%
Tax	262	50	421.5%	268	-2.5%
PAT	492	148	233.4%	459	7.1%
Adjusted PAT	492	148	233.4%	459	7.1%
EBITDA Margin	15.1%	10.5%		15.9%	
Tax Incidence	34.7%	25.4%		36.9%	
Adj PAT Margin	4.9%	1.6%		4.9%	

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